about SUGAR BUYING

LAMBORN BUILDING

about SUGAR BUYING for Jobbers

How you can lessen business risks by trading in Refined Sugar Futures

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A BOOKLET
FOR JOBBERS WHO
SELL SUGAR

Lamborn & Company
SUGAR HEADQUARTERS
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About Sugar Buying

JOBBERS who have had considerable experience in exchange operations will find in this booklet a simplified and non-technical description of activities with which they may be in general familiar.

We believe, however, that the inauguration of trading in refined sugar futures on the New York Coffee and Sugar Exchange, Inc., throws open a new realm of opportunity.

We have attempted to outline briefly the chief advantages to be gained by a jobber's use of this new market, assuming that those who have in the past dealt in raw sugar as a protection for their refined sugar needs will welcome suggestions as to the benefits to be derived from trading directly in refined sugar.

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Time, the Croupier of Business

LIKE A CROUPIER at a vast roulette table, Time presides over the realm of business.

Time is the tap-root of most business uncertainties.

No one can tell what will happen a year, a month, a day, a minute from now—the future may bring floods and wars, pestilence and drouth; or it may bring great crops and fair weather, happiness and prosperity.

As business has become more and more complicated, the time element has become larger and larger. The time element as we know it does not exist in simple barter—a man weaves a piece of cloth and exchanges it for a bushel of corn: time is of no account in the transaction. A small jobber located in the same territory as refiners buys a small amount of sugar today and distributes it to his trade the next—time is negligible. A large jobber, buying perhaps for several branch houses, or located at points which necessitate a

delay of two or three weeks in transit, may find it necessary even on a declining market to purchase a considerable amount of sugar, and, as a result, weeks may go by before his sugar arrives and is sold—time is vitally important.

Time is an element in costs and prices, because over any extended period of time many things may happen to influence costs and prices.

All business planning must deal with Time.

To the unenlightened business man, Time is a bugaboo—a gambler whose cards are stacked and against whom there is no defense. Such a man conducts his business from hand to mouth, in constant fear. He is a fatalist, taking his profits and losses as if they were gifts or blows of Fortune.

The enlightened man works with Time as an impartial, exacting, inevitable power for his own good or ill. He shapes his actions and enlists the services of Time to prevent catastrophe on the one hand, and to enforce prosperity and happiness on the other. Storms may come, but so far as his mind may control it, he is "the master of his fate."

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Cost and Selling Prices

THAT the element of TIME is important in the jobber's business no one will deny. He does not base his selling price on cost, but rather on the market price. Regardless of his cost, he must sell to meet competition. It is equally obvious that the larger his business, or the greater his distance from the source of supplies, the more important part TIME plays in both his cost and selling prices.

All jobbers, large or small, are obliged to assume greater risks (even proportionately) and exercise greater care, than, for instance, retailers buying in small quantities. A jobber's business may enlarge by a perfectly natural process of expansion, but his purchasing risks increase in greater ratio than his business expands.

Similarly, under abnormal conditions, jobbers located at points requiring several weeks in transit prior to delivery, must assume greater risks than those located at the source of supply. In the event

of serious delays in deliveries or in shipments, even buyers located at shipping points are confronted with this problem, and the difficulties of those located at a distance are increased immeasurably.

These difficulties tend to accentuate the importance of TIME in modern business. As business grows, instead of decreasing—risks increase. Any machinery which might operate to eliminate or reduce this uncertainty or speculative element in a jobber's business, would, we believe, be welcomed. Exchanges provide just such machinery.

Other commodities, such as raw sugar, wheat, cotton, pork and coffee have had this machinery for years and it was provided for refined sugar on May 2, 1921, when trading in refined sugar futures was inaugurated on the floor of the New York Coffee and Sugar Exchange, Inc.

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Where Buyers and Sellers of Sugar Meet

THE SUGAR EXCHANGE is a market place, where buyers and sellers of sugar or their representatives meet to trade.

The Exchange provides a concentration point, where, under any market conditions, sugar may be bought or sold *at a price.*

What that price is, is determined by how much sugar is for sale and how many people want it. If the supply is large and buyers are few, the price will be low. If sugar is scarce and buyers are numerous, the price will be high. Or, to put it in another way, when there are more sellers than buyers, the market declines; when more buyers than sellers, it advances. If the supply and the number of buyers are normally well balanced, the price will be determined largely by the cost of production and transportation. If events or circumstances operate to increase or curtail either the sugar supply or the number of buyers, and

such events or circumstances follow one after the other alternately, the price will fluctuate.

These are the results of the operation of well-known economic laws.

In the case of all commodities which cannot be bought or sold at a common market place (or exchange), price fluctuations are usually wide and frequent, because no large group ever has common knowledge of supply, demand and other factors that govern prices—purchases and sales are made direct between individuals, and knowledge of the amount asked or paid is restricted to a limited few.

Through the common market place provided by an exchange, on the other hand, market conditions and prices become common knowledge almost instantly over the entire country. This tends toward stabilization—a fact which, alone, helps to eliminate risks, and enables merchants to buy at lower prices than if forced to deal direct with one another. Sellers do not have to take such long chances and can thus afford to sell on a smaller margin of profit. Competition is stimulated and freed from many of its complications and uncertainties to the advantage of the seller, the buyer and the public.

It is now admitted that, had exchange trading

in refined sugar existed in 1920, a general use of the exchange by all branches of the trade might have prevented, to a considerable extent, the abnormal advance in sugar prices of that period, with the hardship and misfortune that attended.

The fact that an exchange always provides a buyer and a seller, *at a price,* tends toward keeping business fluid. Jobbers are able to protect their future requirements. Producers are sure of a market for their crops. Crop financing is made easier because bankers are more willing to loan on crops sold in advance—an operation made possible by an exchange.

Exchanges operate to take the gamble out of business. They help to put and maintain business on a sound basis. That some people who have no real interest in the commodity use the exchange speculatively does not alter this fact.

In providing machinery by which speculative risks incident to a jobber's business may be shifted from the jobber to those who make a business of assuming such risks, exchanges help to stabilize his business and to remove a large part of the destructive uncertainty with which he would otherwise have to contend.

Exchanges are the creations of modern eco-

nomic development, designed and operated for the benefit of the commerce, industry and people of the civilized world.

Therefore we welcome trading in refined sugar futures and the opportunity to offer you the advantages that may be derived from a conservative, intelligent use of its services.

The Exchange provides certain quality standards and other regulations to safeguard your interests. But your real assurance of protection lies in the *character* and reliability of your broker. If your broker is not strong financially you do not have back of your contract the responsibility that you might otherwise have.

If you had a favorable contract with a broker who became insolvent, you would have no means of forcing the fulfillment of the contract, and no way of securing the profit which was due you. The thing to do, of course, is to choose a broker who is so strong financially that you incur no danger in this respect whatsoever.

SUGAR HEADQUARTERS

Use the Exchange when the Market is Favorably out of line

IN considering the illustrative examples in this booklet, it should be borne in mind that the measure of protection afforded is relative and not absolute. The theory of exchange operations is that the exchange market will move relatively the same as the market for the actual commodity.

This cannot be strictly true, although the exchange market must of necessity follow very closely the actual market, because all the sugar must, in the final analysis, come from the actual market. If thrown out of parity with the actual market, the exchange market is bound to come back eventually.

In the exchange market anyone can buy and anyone can sell. The market is subject to many outside influences, and the fluctuations reflect and accentuate the varying shades of market opinions of many individuals. But in the market

for the actual commodity, the quotations are made by comparatively few men, which means that there will be less fluctuation.

Therefore, it is obvious that although the exchange market *should* be on a parity with the actual market, the unequal fluctuations of the two markets will be constantly throwing them out of parity or "out of line."

There are times when the market will be so out of line that the *buying* of futures should result profitably. At other times, with conditions reversed, *selling* of futures seems obviously advisable. We do not claim that jobbers can protect sugar purchases with absolute and exact precision. On the basis of long exchange experience, we *do* believe, however, that by a discreet use of the Exchange, and by using the market when quotations are *favorably* out of line, jobbers can do so to their decided advantage.

Selling of Futures—Hedging

AS THE WORD ITSELF indicates, a "hedge" on the Exchange is a protection.

You hedge by buying or owning actual sugar, and "selling short" in the same amount. You sell sugar futures although you do not own any. You actually contract to deliver an amount of sugar during a specified future month at a specified price.

Eventually, you must either buy and deliver actual sugar to carry out this contract, or you must buy another contract for futures to cancel your short sale. This is known as a "covering" operation, and the cancelling of one by the other takes place automatically through the channels of the Exchange.

From the jobber's point of view, the operation of hedging has three outstanding purposes. He may hedge:

1. To eliminate the probability of speculative profit or loss, due to market fluctuations.

2. To protect a profit on a favorable purchase of actual sugar.
3. To establish and limit a loss on an unfavorable purchase of actual sugar.

HEDGING *to protect a normal jobbing profit by eliminating the probability of a speculative loss or gain.*

This operation is particularly useful to jobbers with whom conditions are such that they desire to be assured that their cost will be at about the market price at the time they dispose of their sugar, regardless of whether the market be higher or lower.

Although there are times when any jobber, no matter where located, will find this a useful transaction, it is obvious that many buyers will not wish to use the market in this way unless they feel it will decline. But it is particularly of advantage to a jobber located in markets necessitating a delay of from one day to several weeks in transit.

For instance, on a certain day in April, two jobbers bought their usual quantity of sugar. One was located in Syracuse, the other in New York. Two days following the purchase, the market broke half a cent per pound. In view of

HEDGING

to protect a normal jobbing profit by eliminating the probability of a speculative loss or gain

Initial Transactions	Subsequent Transactions				Result	
	Liquidating the hedge (covering)	Condition of market when you "cover" your hedge	Price you would pay in covering	Result of hedge and covering operation	Figure your sugar cost this way	In each case the same
You buy actual sugar at 6.00	When you sell your sugar (or when it is delivered) you buy the same amount of futures at the market price, whether higher or lower.	It has declined to..... 4.00	4.00	Profit .. 2.00	Actual cost less profit 6−2=4	You get your sugar at the market price at the time when you sell it (or when your delivery is made.)
At the same time you hedge by selling the same amount of futures at 6.00		It has advanced to.... ... 8.00	8.00	Loss.... 2.00	Actual cost plus loss 6+2=8	
		It stands at..... 6.00	6.00	No profit no loss	Actual cost	

CHART 1

the fact that his sugars were still in transit when the market declined, the Syracuse buyer was obliged to sustain this entire loss, in order to meet competition. On the other hand, because he received and distributed the sugar before the market broke, the New York jobber was able not only to avoid a loss, but make his regular profit.

Naturally the greater the amount of sugar any one concern may have in transit the greater the need for protection. We call this kind of transaction particularly to the attention of buyers having branch houses who find themselves obliged to make relatively large purchases to supply their trade in the face of a market in which they have no confidence.

These disadvantages at which out-of-town buyers are sometimes placed might be overcome by using the Exchange. On the other hand, when refiners are badly behind on deliveries, even buyers located at the source of supply will find themselves facing a similar problem the solution of which may be found in a use of the Exchange.

It is therefore evident that the selling of futures may be a transaction the *sole* purpose of which is to eliminate speculation from a jobber's business.

Regardless of how careful a buyer may be, there

is an element of *speculation in each purchase of actual sugar.*

If the price goes up, there is a speculative gain—the sugar is worth more. But if the price goes down, the buyer sustains a speculative loss.

The measure of protection afforded by the Exchange will appeal to those jobbers who wish to reduce the speculative element in their business.

In the example immediately following, as in all others, we have not taken into consideration the difference between the Exchange quotations and the Seaboard Refiners' quotations, which is explained on page 38. This would simply inject an unnecessary complication, and would be of no particular advantage for purposes of illustration.

Suppose you should buy through your broker from a refiner, for prompt shipment, an amount of *actual* sugar at 6.00, which you plan to sell within a short time after its receipt. Instead of worrying about subsequent sugar price fluctuations, you simultaneously hedge this purchase by *selling* futures in the same amount on the Exchange. The price at which you buy actual sugar and the price at which you sell futures should be relatively the same, since Exchange prices generally reflect refiners' prices.

You should be able to figure the cost of your sugar at about the market price at the time it is received or sold. (See Chart 1.)

If the price of sugar should go down to 4.00 at about the time when you sell it, your actual sugar, for which you contracted to pay 6.00, would be worth only 4.00; but you would then buy to cover your futures sale, making 2.00 on this transaction, which, subtracted from the price you paid (6.00), brings the cost down to the market price of 4.00. In other words, you have accomplished your purpose of being able to figure your sugar cost at the market price at the time when you received it (or at the time you sell it). That is, although every pound of actual sugar was sold at a loss, this loss was balanced by the profit from your hedge.

If, on the other hand, the market should advance to 8.00 after your original purchase and hedge at 6.00, the value of your actual sugar would be increased by 2.00. You would then buy futures at 8.00 to cover your short sale at 6.00, netting a loss thereby of 2.00. This loss would be added to your original cost of 6.00, making your actual sugar cost 8.00, which is the market price at the time. Had you omitted the hedge, your sugar would have cost you only 6.00, but, in this example we are assuming that you would sell only

when you were willing to figure your sugar cost at the market price. This you have accomplished by foregoing the speculative profit you *might* have made in favor of your normal jobbing profit.

If the market should remain relatively stable you would buy to cover your hedge at approximately the same price as you sold for, your gain or loss being practically nothing. In other words, you would obtain sugar at the market price, which is the purpose in this kind of a hedge.

HEDGING *to protect a gain on a favorable purchase of actual sugar.*

All sugar buyers have had the experience of buying actual sugar, only to see it advance or decline before they have disposed of it. How to protect the gain, or minimize the loss, is described in the two hedging positions which we now discuss.

Suppose you have bought sugar, have *not* hedged against it, and have seen it advance. Finally you have said, "I think sugar is about as high as it is going. I am going to sell against that to protect that profit."

On the other hand, the reverse might be the case. You might find the market going down, and say, "The market is going lower. I want to

HEDGING
to protect a gain on a favorable purchase of actual sugar

Initial Transactions	Subsequent Transactions				Result	
	Hedge	Condition of market when you "cover" your hedge	Price you pay for futures to cover hedge	Result of hedge and covering operation	Figure actual sugar cost this way	In each case the same
You buy actual sugar at 6.00, but before you have received it (or before you sell it) the price advances to 8.00		It has declined to.....6.00	6.00	A profit of.... 2.00	Price paid for actual sugar less hedging profit..... 6−2=4.00	
You now have your sugar at 2.00 under the market	You sell futures at 8.00	It has advanced to 10.00	10.00	A loss of 2.00	Price paid for actual sugar plus hedging loss 6+2=8.00	Your sugar cost is 2.00 under the market
You feel that the market may recede and eliminate this gain, so—		It stands at 8.00	8.00	No profit no loss	.....6.00	

CHART 2

hedge against that, and limit my loss to a definite amount."

In both of these cases, the operation is relative. If a man has a profit, let us say 2¢ a pound, and he hedges, he maintains his profit of 2¢ a pound as compared with the market at the time of delivery, or at the time when he expects to sell this sugar, regardless of whether the market is higher or lower.

In the same way, conversely, if he has a loss on his sugar of 2¢ a pound, by hedging he can limit that loss to 2¢ a pound, even though the market goes still lower. In other words, his sugar cost at the time of delivery, or at the time when he expects to sell the sugar, will be about 2¢ above the market price, whether the market is higher or lower.

We shall assume that you have bought from a refiner through your broker a supply of actual sugar at 6.00. While your sugar is in transit or before it has been shipped by refiners, the market advances to 8.00, at which point it apparently is steady. You now have a *theoretical* gain of 2.00—that is, if you were to sell your sugar at once, you would have an *actual* profit of 2.00; but you do not sell because your sugar is in transit or you

need it for your trade. However, you do want to preserve and protect this favorable position of having your sugar 2.00 below the market at the time you want to sell it. So you sell the same quantity of futures on the Exchange at 8.00.

Three things may occur—the market may decline, or it may continue to advance, or it may remain steady. You have accomplished your purpose in any case (see Chart 2).

By the time you sell your sugar (or at the time of its delivery) it becomes necessary for you to cover your hedge and if the market has declined from 8.00 (at which point you hedged) and stands at 6.00 again, your hedging operations considered alone would net you an actual profit of 2.00. Your original sugar cost was 6.00. Your profit on your hedge was 2.00, so that you would figure your actual sugar cost at 4.00. You would have accomplished your purpose of getting your sugar 2.00 under the market at the time of selling it (or at the time of its delivery). That is, your delay in selling your sugar has cost you practically nothing, even though the market has declined.

If the market has advanced to 10.00, when it becomes necessary for you to cover your hedge (at the time of selling your sugar or when

it is delivered) your hedging operations considered alone would net you a *loss* of 2.00. You would buy in futures at 10.00, which you sold at 8.00. Your original sugar cost was 6.00, your loss on your hedge was 2.00, so that you would figure your actual sugar cost at 8.00. But the market at that time was 10.00, so that you have accomplished your purpose of getting your sugar 2.00 under the market at the time of selling it (or at the time of delivery). In other words, you would make the same profit as though you had re-sold your sugar to second-hands originally, instead of hedging, but had you followed this course, you might not have had sugar in stock for your regular trade.

On the other hand, when it becomes necessary for you to cover your hedge, if the market has remained steady and is again at 8.00, the two futures transactions cancel themselves without profit or loss. Your original cost of 6.00, therefore, stands as your actual sugar cost at the time of selling (or at the time of delivery). This is 2.00 under the market and you have accomplished your purpose.

HEDGING *to establish and limit a loss on an unfavorable purchase.*

This operation is identical in its working with the

HEDGING
to establish and limit a loss on an unfavorable purchase

Initial Transactions	Subsequent Transactions				Result	
	Hedge	Condition of market when you "cover" your hedge	Price you pay for futures to cover hedge	Result of hedge and covering operation	Figure actual sugar cost this way	In each case the same
You buy actual sugar at 6.00 but before you have received it (or before you sell it) the price declines to 5.00	You sell futures at 5.00	It has declined to..... 4.00	4.00	A profit of.....1.00	Price paid for actual sugar less hedging profit..... 6—1=5.00	Your sugar cost is 1.00 above the market
You now have your sugar at 1.00 above the market		It has advanced to..... 6.00	6.00	A loss of 1.00	Price paid for actual sugar plus hedging loss 6+1=7.00	
You feel that the market may decline still further and increase this loss, so—		It stands at..... 5.00	5.00	No profit no loss	..... 6.00	

CHART 3

previous example, except that you have a different end in view.

Let us say that you purchase actual sugar at 6.00. If the market declines to 5.00 after your original purchase at 6.00, you have a *loss* of 1.00, in the value of your sugar. Facing the possibility of a further decline and desiring to *limit* this loss to 1.00, you hedge by selling futures. In this case you should limit your *loss* to 1.00 just as effectively as in the previous example you preserved your *gain* of 2.00, and by the same course of procedure. (See Chart 3.)

By the time it is necessary for you to cover your hedge by buying an equivalent amount of futures, the market may have declined still further, say to 4.00. You sold at 5.00, you bought at 4.00, profit on that operation, 1.00. Subtract this profit from your original cost (6.00) and figure your sugar cost at 5.00. In other words, although the market went still lower, you succeeded in limiting your loss to 1.00, as compared with the market price at the time of the delivery of your sugar (or at the time you sell it). Had you omitted the hedge, your actual sugar cost would have been 6.00, which was 2.00 above the market.

After your original purchase at 6.00, and market decline to 5.00 (at which point you hedged), the market might advance again to 6.00, or remain steady at 5.00, but the operation is no different from that previously described, and you in each case attain the same result.

Buying of Sugar Futures

REFINERS do not make a practice of taking orders more than thirty days in advance of actual delivery—but there are obviously times when it is advisable to cover one's requirements for a longer period. A jobber may do this on the Exchange where he will always find a seller at *some* price for the quantity he desires.

This privilege is particularly valuable to:

1. Jobbers who believe that the market price of Sugar is going higher and who desire to cover their future requirements beyond the delay period which refiners will extend.
2. Jobbers, who desire to sell to manufacturing customers for future delivery at a fixed price so that these manufacturing customers may determine their selling price, may do so by the use of the Exchange.

1. Buying of sugar futures—Based upon the expectation of higher prices

No doubt many jobbers will recall occasions

when anticipating their requirements seemed obviously advisable, perhaps almost imperative. Such a jobber would be one who believed in the market. His action would be based on his opinion of the market. He might note in January, let us say, that the price of May or July futures is favorable. He would like to get his May or July sugar at about that figure. You yourself probably can recollect many times in the past, when the general market was in such a strong position fundamentally that anticipating your requirements seemed advisable. You decided to buy a considerable quantity only to find that refiners would not sell you to the extent that you wished to purchase. When covering your future requirements on the Exchange, you can buy any quantity desired.

Consider also on how many occasions when you wanted and *needed* a definite future month of shipment, you have been told that "*as soon as possible*" was the only acceptable basis.

Or have you had the experience of placing an order and waiting twenty-four or thirty-six hours without knowing if the refiner would accept your order? Meanwhile the market might have advanced, and, if your order had been declined, you would have had to pay an even higher price for your sugar. The facilities of the exchange offer

opportunities for protecting requirements *quickly* and without the uncertainty and delay sometimes encountered from refiners.

A jobber must anticipate the market in order to take full advantage of it, and in this connection it should be borne in mind that the Sugar Exchange, as in the case of practically all exchanges, usually anticipates either favorable or unfavorable developments in the market for the actual commodity. Consequently, prompt action is necessary when either a higher or lower market is expected, as the Exchange market will usually be the first to reflect changing conditions.

Suppose you feel that the price of sugar is low and probably going higher. You try to anticipate your requirements for some time to come, but find that refiners will not sell for more than thirty days.

You can go on the Exchange and buy futures in the quantity and month desired. Assume then, that you pay 6.00 for your futures. Now, whatever happens in the sugar market, you know you can get the quantity of sugar desired at about 6.00 (see Chart 4).

The market will advance, decline or hold steady.

Say the market advances. When it seems

advisable to close out your Exchange contract and buy actual sugar, the price may have gone up to 8.00. You will then sell your futures at about 8.00, go into the market and buy actual sugar at the same price, assuming, of course, that the actual market has advanced in relative proportion—which is likely. Although actual sugar has cost you 2.00 more than you had figured, you have made 2.00 on your futures. Profit and loss cancel each other. Your sugar cost is 6.00.

On the other hand, suppose the market declines after you have bought futures at 6.00, and goes down to 4.00, when it seems advisable to close out your Exchange contract. You sell your futures at 4.00, a loss of 2.00. But you will also buy your actual sugar at 4.00, which is 2.00 lower than you had planned. Your actual sugar cost was therefore 6.00, which is the price you had figured was favorable.

If the price still is at 6.00 when you desire to liquidate, you would sell your futures and buy your actual sugar at about the same price. Thus you have neither gained nor lost, but you have been sure of getting sugar at 6.00, which is the price you felt was low.

The time to buy actual sugar is generally when

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the market becomes strong and an advance in the price of the actual commodity seems imminent; but the time to buy sugar futures is before the strength develops. The future market invariably discounts declines and anticipates advances.

2. *Buying of Sugar Futures to protect profits on advance sales to customers*

While it may not be an established custom, we know numerous instances where jobbers have sold sugars in small quantities for future delivery. The examples to which we refer are small manufacturers buying sugar locally, who, when the market appears in a strong condition desire to be assured of their regular supply of sugar at a specified price. Under such conditions we have known jobbers to sell them sugar for delivery over several months. If at any time you are placed in a similar position, and desire to take care of your customers in this manner, without incurring too great a risk, the Exchange offers exceptional opportunities for protection, as, of course, you would be able to buy sugar for delivery in any month you desire, even as far in advance as one year.

It is clear that if you sell at a specified price for delivery at a certain time, your only protection is

BUYING SUGAR FUTURES

1. Based on the expectation of higher prices.
2. To establish costs, pre-determine selling prices and protect profits on advance sales.

Initial Transactions	Subsequent Transactions					Sugar Cost	Result
		Condition of market when you buy actual sugar	Price you would obtain for your futures	Result of selling your futures	Price you pay for actual sugar	Figure it this way	In each case the same
You buy Sugar Futures at 6.00 to cover future requirements; fix your price and take orders on the basis of 6c sugar	When you buy actual sugar, you sell your futures	If it has advanced to..... 8.00	8.00	A profit of 2.00	8.00	Price paid for actual sugar less hedging profit 8—2=6	Your sugar cost is 6.00: as pre-determined
		If it has declined to..... 4.00	4.00	A loss of.. 2.00	4.00	Price paid for actual sugar plus hedging loss 4+2=6.00	
		If it is still at..... 6.00	6.00	No profit, no loss	6.00	..... 6.00	

CHART 4

your belief that you'll be able to buy sugar cheaply enough to make a profit.

It is equally clear that if a manufacturer names a price and takes advance orders without predetermining his sugar cost, his profit is a matter of guesswork. He is not going to know the cost of his manufactured product until he buys his sugar.

Assume that you have contracted to deliver sugar to a manufacturer or to any customer at a definite date and a specified price, without buying sugar to cover your requirements. If the price of sugar is favorable when you deliver it, you are fortunate and net a profit. But sugar may have advanced to a point where you are forced to pay such a price that your profit is lower than it should be. In fact there may not be any profit at all.

By conservative, wise use of the Sugar Exchange, most of this risk and uncertainty can be eliminated and both you and your customer can go ahead with your plans with your prices determined through a known sugar cost.

Suppose that in March or April, for example, the market appears strong and you find that some of your manufacturing customers are anxious to be assured of an adequate supply of sugar at a

definite price. In such a case, if these advance orders called for a sufficient volume, and provided Exchange prices were favorable, you could take care of your trade's future requirements at a fixed price, without yourself taking a speculative position. We also believe that buyers making these arrangements with any of their trade would be justified in requesting the same proportionate marginal protection which it is necessary for jobbers themselves to give the seller on the Exchange. There will no doubt be many occasions when it would be worth while to solicit orders on this basis.

With your own sugar cost fixed by the use of the Exchange, you could take proper care of these buyers without worrying about subsequent fluctuations of the market, as you would know that your sugar cost would be about the price paid for your futures which, let us say, is 6.00. (See Chart 4.)

The market may advance so that by September, sugar is selling at 8.00. (You are now making deliveries to your trade as contracted). So you sell your futures at 8.00, go into the market and buy actual sugar for about the same figure, assuming, of course, that actual sugar has also advanced in relative proportion, which is likely.

You pay 2.00 more for your actual sugar than you had figured but you have profited to the extent of 2.00 on the sale of futures. Profit and loss cancel each other and you have your sugar at 6.00. In other words, although the market is now 8.00 you are delivering 6.00 sugar to your customers, with a profit to yourself.

If the market declines after your original purchase at 6.00 so that in September sugar is selling at 4.00, you will sell your futures at 4.00, taking a loss of 2.00. But you will buy your actual sugar at about 4.00, also, which is 2.00 lower than you planned for. This gain of 2.00, while not to be termed an actual profit, may certainly be considered as canceling the loss on the sale of your futures, so that the cost of your sugar is really 6.00, your original price.

Another way of looking at this is to add the loss of 2.00 on the sale of your futures to 4.00, the cost of your actual sugar, making 6.00, the price upon which you had based your plans. If you had waited, you would have been able to get your sugar for 4.00, but by buying it ahead you have had the benefits of protection and the elimination of speculation and risk.

If the market remains steady after your June

purchase, or after various fluctuations, returns to 6.00 by September, you sell your futures at 6.00 and buy spot sugar for about the same amount. Thus you have neither gained nor lost, but you have been protected in your sugar cost.

This is essentially a "playing-safe" operation. It results in profit insurance for the jobber who is willing to sacrifice the possibility of a speculative gain on advance sales to customers. It is thoroughly sound business policy and is neither expensive nor difficult to carry out.

SUGAR HEADQUARTERS

Point of Delivery

ALTHOUGH CHICAGO is the delivery point in all Exchange contracts for refined sugar, it should be plainly understood that the Exchange is for anyone, anywhere. Whether located in Chicago, or in Rochester, Baltimore, New York or even San Francisco, a jobber can advantageously use the Exchange.

Deliveries of Refined Sugar Futures will be made only from the Exchange-licensed warehouses in Chicago. But, regardless of the prospective buyer's location, the delivery point is not of any material importance as it is an established fact that in operations on all exchanges the percentage of actual deliveries taken is exceptionally small. In fact, the examples used in this booklet are all based on the supposition that the buyer may find it more convenient *not* to take delivery.

The usual procedure followed in sugar exchange operations is for the buyer to close out his ex-

change transaction prior to the period calling for delivery and purchasing actual sugar from the refiners, executing both transactions practically simultaneously.

Possibly the most important problem in connection with the organization of any commodity exchange is to reduce the possibility of corners, however remote, to the smallest possible degree.

In the case under discussion, the Chicago delivery point, by virtue of its accessibility for producers and consumers from all parts of the country, operates to that end.

Practically every refiner of cane sugars in the East and West, as well as the Southern refiners, carries large stocks in Chicago, and its favorable location in connection with the beet sugar industry also makes it highly desirable. Its situation in regard to the offerings of the Louisiana producers is also an additional protection and advantage of considerable importance.

The Exchange-licensed warehouses in Chicago are under the direct and constant supervision of Exchange representatives. Facilities are provided for testing and grading sugar so as to maintain Exchange quality standards.

SUGAR HEADQUARTERS

When are Refiners' Prices and Exchange Quotations in line?

SINCE EXCHANGE QUOTATIONS for refined sugar futures are net cash ex-exchange-licensed warehouse, Chicago, while refiners' quotations are f.o.b. refinery, less 2% for cash, it is obvious that there must be a difference between refiners' prices and exchange quotations.

It is equally obvious that the differential should approximate the freight rate between Chicago and the Seaboard, where the refiners are located, with allowance also for the cash discount. When the markets are in line such is the case. Conversely, when the differential is higher or lower, the markets are out of line.

Therefore, in order to tell whether the markets are out of line, or to what extent, it is necessary to determine on a differential to represent the normal difference between the two markets.

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There is no one figure, however, that will satisfy all conditions at all times, for the reason that there are various freight rates between the Seaboard and Chicago. It is inaccurate, for instance, to use 63¢ as the basis for the normal differential. The 63¢ rate is one rate—the all-rail freight rate from New York to Chicago.

Other important routes and rates are as follows:

Routing:	Freight Rate:
New Orleans—Chicago (barge and rail)	$0.50*
New York—Chicago (rail and lake)	.58
New Orleans—Chicago (all rail)	.60
Philadelphia—Chicago (all rail)	.61
New York—Chicago (all rail)	.63
Savannah—Chicago (all rail)	.63
Boston—Chicago (all rail)	.63

* The cheapest routing (48c) takes about two weeks' more time in transit than the New York all-rail routing (63c). Interest charges on finances involved, etc., for this extra period will bring the expense of this routing to approximately 50c.

After a study of the amounts of sugar shipped over these various routes we have arrived at an arbitrary figure to represent the normal differential between refiners' prices and exchange quotations. We believe that 57¢ will serve as a safe basis for calculation, but 58¢ or 59¢ might be equally—or more—accurate. In fact, anyone is entitled to an opinion. 57¢ is our opinion. It is not an average of freight rates, but is an arbitrary figure.

When the markets are in line, using 57¢ as a basis for calculation, 2% should be deducted from refiners' prices, and 57¢ added to determine what Exchange quotation should be. Conversely, 57¢ should be deducted from Exchange quotations and 2% added to determine what refiners' prices should be.

If you are willing to accept 57¢ as a safe figure, you may find the following chart useful in determining the condition of the market:

ARE REFINERS' PRICES AND EXCHANGE QUOTATIONS IN LINE?

Based on a 57c differential and 2% cash discount

When Refiners' Prices Are	Exchange Quotations Should Be	When Refiners' Prices Are	Exchange Quotations Should Be
4c	4.49	4.80	5.27
4.05	4.54	4.85	5.32
4.10	4.59	4.90	5.37
4.15	4.64	4.95	5.42
4.20	4.69	5.00	5.47
4.25	4.73	5.05	5.52
4.30	4.78	5.10	5.57
4.35	4.83	5.15	5.62
4.40	4.88	5.20	5.67
4.45	4.93	5.25	5.71
4.50	4.98	5.30	5.76
4.55	5.03	5.35	5.81
4.60	5.08	5.40	5.86
4.65	5.13	5.45	5.91
4.70	5.18	5.50	5.96
4.75	5.22	5.55	6.01

When Refiners' Prices Are	Exchange Quotations Should Be
5.60	6.06
5.65	6.11
5.70	6.16
5.75	6.20
5.80	6.25
5.85	6.30
5.90	6.35
5.95	6.40
6.00	6.45
6.05	6.50
6.10	6.55
6.15	6.60
6.20	6.65
6.25	6.69
6.30	6.74
6.35	6.79
6.40	6.84
6.45	6.89
6.50	6.94
6.55	6.99
6.60	7.04
6.65	7.09
6.70	7.14
6.75	7.18
6.80	7.23
6.85	7.28
6.90	7.33
6.95	7.38
7.00	7.43
7.05	7.48
7.10	7.53
7.15	7.58
7.20	7.63
7.25	7.67
7.30	7.72
7.35	7.77
7.40	7.82
7.45	7.87
7.50	7.92
7.55	7.97
7.60	8.02
7.65	8.07
7.70	8.12
7.75	8.16
7.80	8.21
7.85	8.26
7.90	8.31
7.95	8.36
8.00	8.41
8.05	8.46
8.10	8.51
8.15	8.56
8.20	8.61
8.25	8.65
8.30	8.70
8.35	8.75
8.40	8.80
8.45	8.85
8.50	8.90
8.55	8.95
8.60	9.00
8.65	9.05

When Refiners' Prices Are	Exchange Quotations Should Be	When Refiners' Prices Are	Exchange Quotations Should Be
8.70	9.10	9.40	9.78
8.75	9.14	9.45	9.83
8.80	9.19	9.50	9.88
8.85	9.24	9.55	9.93
8.90	9.29	9.60	9.98
8.95	9.34	9.65	10.03
9.00	9.39	9.70	10.08
9.05	9.44	9.75	10.12
9.10	9.49	9.80	10.17
9.15	9.54	9.85	10.22
9.20	9.59	9.90	10.27
9.25	9.63	9.95	10.32
9.30	9.68	10.00	10.37
9.35	9.73		

(This chart works both ways. That is, when the exchange quotation is given, if the markets are in line the refiners' prices should be as shown in the first column.)

It should be borne in mind that the above calculations are based upon a normal difference in price of 20¢ per hundred pounds between beet and cane sugars, which is the ruling difference as quoted in the Exchange contract. Should beet refiners elect to sell at greater discounts than 20 points under cane refiners' Seaboard prices, the amount in excess of 20 points would have to be subtracted from our arbitrary figure of 57¢.

The Function of the Sugar Broker

IF YOU SHOULD ORGANIZE your company so that it could attend to all the details of sugar buying economically, you would probably still profit from the assistance of a sugar broker whose specialty is sugar buying, whose horizon is a sugar horizon, whose thoughts are sugar thoughts and who must necessarily know more about sugar than the average buyer would ever consider it desirable to know.

The sugar broker's service to you is unaffected by prices—his prices and all other brokers' prices are the Exchange prices; his commissions are based on the same percentages as all other brokers' commissions. His only distinction can come from the actual service he can render.

This service may be good or poor, depending upon whether his experience, his organization, his information and his judgment are good or poor. If, added to his knowledge of sugar, he also possesses a broad knowledge of economic funda-

mentals and a perspective upon and contact with world activities as they affect all phases of the business of sugar, his service will be many times more valuable than if he were limited by a small organization, by a definite locality or by experience in only a few phases of this business.

A sugar broker who merely *accepts and transacts orders* is giving no service worth the name. To give service in accordance with the highest modern standards, he must stand as an adviser, as a constant seeker after opportunities which will benefit his clients, as a partner whose interest in his clients' profits and progress equals his interest in his own.

Our experience has convinced us that the client secures the greatest amount of protection in filling his sugar needs when one broker handles all sugar transactions.

These exchange operations should be carried out when the market is out of line in your favor. You need the best kind of advice, based on an intimate knowledge of your business.

A single brokerage house becomes thoroughly acquainted with the client's business and personnel, with the result that the two organizations work in harmony virtually as partners, confusion

and misunderstandings are avoided, quicker and more advantageous transactions are made possible.

The choice of that broker should be a matter of great care, for in addition to the willingness to serve, he must have the facilities and the financial stability. For, bear in mind that the broker with whom you deal is the responsible party for the fulfillment of the contract. Your contract is as good only as the reliability of your broker.

Lamborn & Company has become known throughout this country and abroad as an institution for the service of all those who have a business interest in sugar.

Lamborn Sugar Service is rendered through our head office at 132 Front Street, New York, and through branch offices in Philadelphia, Chicago, Savannah, New Orleans, Kansas City, Mo. and San Francisco.

Lamborn Service in all its phases is available to you as a jobber.

We shall be very glad to explain either in person or by letter what a brokerage relationship with us involves, how it may be accomplished and how transactions may be carried out.

SUGAR HEADQUARTERS

Contract between Members of the New York Coffee and Sugar Exchange, Inc.

The Standard Fine Granulated Sugar contract is as follows:

Sold for ..... to ..... 800 bags (of 100 lbs. net each) of Standard Fine Granulated Sugar at ..... cents per pound, manufactured in the United States or insular possessions, packed in cotton-lined burlap bags, deliverable from licensed warehouse in Chicago between the first and last days of ..... inclusive. Delivery within such time to be at Seller's option, upon seven, eight or nine days' notice to the buyer. If Domestic Beet Standard Fine Granulated Sugar be delivered in fulfillment of this contract, Seller to make an allowance of 20¢ per 100 lbs.

The Seller shall have the right to deliver Foreign Cane Standard Fine Granulated Sugar in fulfillment of this contract by making an allowance to the Buyer of 25¢ per 100 lbs., and foreign beet standard fine granulated sugar by making an allowance of 45c. per 100 lbs., provided such sugars comply with the Types adopted as Standard by the New York Coffee and Sugar Exchange, Inc., and all duties have been paid thereon.

This contract is subject to an adjustment for duty, as provided in the Sugar Trade Rules.

Either party to have the right to call for margins as the variations of the market for like deliveries may warrant, which margins shall be kept good. This contract is made in view of and in full accordance with the By-Laws, Rules and Conditions established by the New York Coffee and Sugar Exchange, Inc.

(Written across the face is the following)

For and in consideration of one dollar to.....in hand paid, receipt whereof is hereby acknowledged....accept this contract with all its stipulations and conditions.

SUGAR HEADQUARTERS

Brokers' Commissions

The broker's commission for either buying or selling each contract of 800 bags of sugar depends upon the price at which the transaction is executed. The following table gives a range of prices and the corresponding commissions:

For the sale or purchase of each lot of 800 bags:

Contract Price	*Commission**
Up to 9.99¢, per pound	$15.00
10¢ to 12.99¢, " "	17.50
13¢ to 17.99¢, " "	20.00
18¢ and above, " "	25.00

*These commissions apply to transactions in the United States, Porto Rico and Cuba, from non-members of the New York Coffee and Sugar Exchange, Inc.

Minimum Trading Basis

A "lot" of refined sugar consists of 800 bags of 100 lbs. each, or 80,000 lbs. This is the minimum amount which can be sold on the Exchange.

Delivery

The date upon which sugar shall be delivered on an Exchange contract is at the option of the seller, provided that date come within the month named in the contract. Notice of the date of delivery must be given to the buyer seven, eight or nine days preceding the day on which delivery will be made.

If you are not going to fill your actual sugar needs by accepting delivery from the Exchange warehouses, you should close out your contracts within two weeks, or, at the latest, ten days of the first of the month in which delivery is specified, as after notification of delivery has been given, there is usually not sufficient time to make other plans.

Orders

Except in nearby localities, orders should be sent by wire, addressed to: SUGAR FUTURES DEPARTMENT, 132 Front Street, New York, N. Y. Inquiries or orders will be given prompt attention at any of our offices, but time will be saved and execution facilitated if they are sent direct to New York. Unless otherwise specified, orders are good only for the day on which they are received. If they cannot be executed at the price named before the closing of the Exchange on that day, or if they should arrive after the Exchange closes, it will be understood that they are automatically cancelled unless specific instructions are given for the execution the following day or unless formally renewed by wire. If you desire to place an order, good until countermanded, you can do so. The general term applied to such orders is "order good till cancelled." The general abbreviation in the trade is G.T.C.

Exchange Trading Hours

Hours for trading on the Exchange are from 11:00 a.m. to 2:50 p.m., except on Saturdays.
Saturday hours are from 10:30 a.m. to 11:50 a.m.

Delivery and Warehousing Charges

If you make delivery on the exchange, the following are your charges:

Storage..... 3¢ per 100 lb. bag
Handling in and out, charged..
with first month's storage.. 5¢ per 100 lb. bag
Negotiable warehouse receipt 50¢

If you accept delivery on the exchange, your charges are:

Carloading..... 1¼¢ per 100 lb. bag

SUGAR HEADQUARTERS

Acceptance of your order

The form of our acceptance of your order reads as follows

In accordance with your instructions we have this day made the following transactions in STANDARD FINE GRANULATED SUGAR for your account and risk, subject in all respects, and in accordance with, the Rules, By-Laws, Regulations and Customs of THE NEW YORK COFFEE AND SUGAR EXCHANGE, Inc., and the Rules, Regulations and Requirements of its Board of Directors, and all amendments that may be made thereto.

All transactions made by us for your account contemplate the actual receipt and delivery of the SUGAR and payment therefor.

The right is reserved to close transactions when margins are exhausted or nearly so, without notice.

Bags of Refined Sugar		Month of Delivery	Price
Bought	Sold		

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Raw Sugar Futures

PRIOR to the inauguration of trading in Refined Futures, Raw Sugar Futures were used by many jobbers for hedging and protecting their Refined requirements.

The theory of operation is that the raw price will be about equivalent to the refined price after duty and the charge for refining are added. While the Raw Sugar market will at times get out of line with refined, both favorably and unfavorably, this cannot continue for any long period.

When the Raw Futures market is favorably out of line, it may be more to your advantage to use this market, rather than the Refined Futures market. At the present time there is the added advantage that the volume of trading is greater in Raw than in Refined.

When buying or selling Raw Sugar Futures, you may figure that the variation on a minimum lot of 50 tons would be equivalent to the same variation of 1120 bags or 320 barrels.

We give you below herewith details of contract and trading conditions:

All contracts for future delivery shall be for 50 tons of 2,240 pounds each and multiples thereof.

CONTRACTS: Sold for ..... to..... ....., 50 tons of 2,240 pounds each of sugar in bags, deliverable from licensed warehouse in the port of New York, between the first and last days of ..... inclusive. The delivery within such time to be at seller's option, upon 7, 8 or 9 days' notice to the buyer. The sugar to be of any grade or grades of Raw sugars based on Cuban Centrifugal of 96 degrees average polarization outturn at the price of ..... cents per pound in bond, net cash with additions or deductions for other grades according to the rates of the New York Coffee and Sugar Exchange, Inc., existing upon the afternoon of the day previous to the date of notice of delivery, and shall embrace all Centrifugals first running. The foreign sugars deliverable other than Cuban Centrifugals, are: Centrifugals from British West Indies, Demerara, Surinam, San Domingo, Brazil, Peru, Java, Mauritius, Venezuela and Haiti, all basis of 96 degrees average polarization outturn at .2512 cents per pound (difference in duty) less; but no lot of 50

tons is to consist of sugar from more than one country of origin.

Allowances on Centrifugal sugars to be .03125 cents per pound per degree above 96 degrees, up to 98 degrees and .0625 cents per pound per degree below 96 degrees, down to 94 degrees and .09375 cents per pound per degree below 94 degrees, down to 92 degrees, with fractional degrees pro rata.

Exchange Trading Hours

Hours for trading in Raw Sugar Futures are from 10:45 a. m. to 2:45 p. m. on week days and from 10:15 a. m. to 11:45 a. m. on Saturdays.

Trading Differences

A fluctuation of 1c. per 100 pounds is equivalent to $11.20 per lot of 50 tons.

Margins

An original margin in New York funds must accompany all orders, we reserving the right to call for variation margins when contract shows depreciation. We also reserve the right to close transactions when margins are exhausted or nearly so without further notice. The amount of this original margin will of necessity fluctuate with

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conditions existing at the time orders are placed. At the present time in localities that are in position to make prompt remittance for any variation margins required, the margin is $400.

Commissions

For either buying or selling each contract of 50 tons

Based upon a price

Below 4 cents	$12.50
4 cents to 9.99	15.00
10 cents to 12.99	17.50
13 cents to 17.99	20.00
18 cents and above	25.00

NOTE: All orders for Raw Sugar Futures shall be in accordance with the By-Laws and Rules of the New York Coffee and Sugar Exchange, Inc. and the New York Coffee and Sugar Clearing Association, Inc.